

**REPORT OF THE AUDIT OF THE
BADGETT REGIONAL COOPERATIVE FOR
EDUCATIONAL ENHANCEMENT, INC.**

**For The Fiscal Year Ended
June 30, 2003**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary, Finance and Administration Cabinet
Gene Wilhoit, Commissioner, Department of Education
Robert S. Sherman, Director, Legislative Research Commission
Carolyn Ferrell, Executive Director,
Badgett Regional Cooperative for Educational Enhancement, Inc.
Board of Directors of the Badgett Regional Cooperative for Educational Enhancement, Inc.

The enclosed report prepared by Berger & Company CPA, PSC, Certified Public Accountants, presents the financial statements of the Badgett Regional Cooperative for Educational Enhancement, Inc., Madisonville, Kentucky, as of June 30, 2003.

We engaged Berger & Company CPA, PSC to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Berger & Company CPA, PSC evaluated the Badgett Regional Cooperative for Educational Enhancement, Inc.'s internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



**BADGETT REGIONAL COOPERATIVE FOR
EDUCATIONAL ENHANCEMENT, INC.**

FINANCIAL STATEMENTS

June 30, 2003

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Independent Auditors' Report

To the Board of Directors of
Badgett Regional Cooperative for
Educational Enhancement, Inc.
Madisonville, Kentucky

We have audited the accompanying statement of assets, liabilities and net assets – cash basis of Badgett Regional Cooperative for Educational Enhancement, Inc. (a nonprofit organization) as of June 30, 2003, and the related statements of revenues, expenses and changes in net assets and functional expenses – cash basis for the year ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

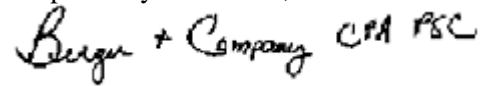
As described in Note A, the Badgett Regional Cooperative for Educational Enhancement, Inc. prepares its financial statements on the basis of cash receipts and disbursements except that the statements include a provision for depreciation of buildings and equipment. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets – cash basis of Badgett Regional Cooperative for Educational Enhancement, Inc. as of June 30, 2003 and the results of its revenues, expenses and change in net assets – cash basis for the year then ended on the basis of accounting described in Note A.

To the Board of Directors of
Badgett Regional Cooperative for
Educational Enhancement, Inc.
Madisonville, Kentucky

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2003 on our consideration of Badgett Regional Cooperative for Educational Enhancement, Inc.'s internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully Submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company CPA, PSC

Audit fieldwork completed –
December 17, 2003

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS
June 30, 2003

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 140,818
Restricted Cash	<u>141,422</u>
Total Current Assets	282,240

PROPERTY, PLANT & EQUIPMENT

Land	45,976
Building and Improvements	164,575
Furniture and Equipment	265,850
Migrant Equipment	17,294
Goals 2000 Equipment	20,311
Vocational Equipment	22,486
School to Work Equipment	<u>37,227</u>
	573,719
Less: Accumulated Depreciation	<u>(397,578)</u>
Property, Plant & Equipment, Net	<u>176,141</u>

TOTAL ASSETS

\$ 458,381

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Payroll Taxes Payable	\$ 755
Deferred Revenue - Staff Development	139,408
Current Portion, Long-Term Debt	<u>4,910</u>
Total Current Liabilities	<u>145,073</u>

Note Payable, less current portion	<u>82,739</u>
Total Liabilities	227,812

NET ASSETS

Unrestricted	228,555
Temporarily Restricted	<u>2,014</u>
Total Net Assets	<u>230,569</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 458,381

The accompanying notes are an integral part of these financial statements.

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - CASH BASIS
For The Year Ended June 30, 2003

Changes in Unrestricted Net Assets:

Revenues:

Professional Staff Development	\$ 658,132
Administrative Services	3,747
Contributions	120,637
Sales	993
Interest Income	3,297
Electronic Community School Fees	72,100
Total Unrestricted Revenues	<u>858,906</u>

Net Assets Released From Restrictions:

Satisfaction of Program Restrictions:

Title I Migrant Grant	<u>97,657</u>
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Total Unrestricted Revenues and Other Support	956,563
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Expenses:

Program Services:

Grants:

Title I Migrant	98,106
Professional Staff Development:	
Staff Development	515,660
Administration	125,876
Electronic Community School	<u>40,899</u>

Total Program Services	780,541
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Management and General	<u>175,194</u>
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Total Expenses	955,735
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Increase in Unrestricted Net Assets	<u>828</u>
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Changes in Temporarily Restricted

Title I Migrant Grant	98,666
Net Assets Released From Restrictions	<u>(97,657)</u>

Increase in Temporarily Restricted Net Assets	<u>1,009</u>
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Increase in Net Assets	1,837
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Net Assets - Beginning of Year	<u>228,732</u>
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Net Assets - End of Year	<u><u>\$ 230,569</u></u>
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The accompanying notes are an integral part of these financial statements.

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.
STATEMENT OF FUNCTIONAL EXPENSES - CASH BASIS
For The Year Ended June 30, 2003

	Program Services	Management & General	Total Expenses
Salaries	\$ 121,419	\$ 86,852	\$ 208,271
Salaries - Title I Migrant Program	58,258	-	58,258
Employee Fixed Charges	9,405	13,482	22,887
Insurance	-	2,910	2,910
Office Expense	-	11,867	11,867
Staff Development	515,660	-	515,660
Supplies	2,222	8,366	10,588
Utilities	1,215	13,233	14,448
Maintenance - Building	-	2,243	2,243
Travel	8,387	-	8,387
Welfare Expense	13	-	13
Interest	-	5,189	5,189
Instructional Fees and Materials	11,237	-	11,237
Telephone	-	693	693
Other Expense	-	11,642	11,642
Legal and Professional	1,000	8,717	9,717
Electronic Community School	40,899	-	40,899
Depreciation Expense	10,826	10,000	20,826
	<u>\$ 780,541</u>	<u>\$ 175,194</u>	<u>\$ 955,735</u>

The accompanying notes are an integral part of these financial statements.

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The mission and purpose of the Badgett Regional Cooperative For Educational Enhancement, Inc. (the "Cooperative") is to provide professional staff development for educators in certain Western Kentucky school districts and to serve as a regional coordinator of the Federal Title I Migrant program.

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting. Under that basis, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. That basis differs from accounting principles generally accepted in the United States of America primarily because the Cooperative has not recognized accounts receivable for services rendered and accounts payable to vendors and their related effects on earnings in the accompanying financial statements.

Basis of Presentation

Financial statements of the Cooperative are prepared in accordance with the American Institute of Certified Public Accountants industry audit and accounting guide, *Not-For-Profit Organizations*.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Property, Plant and Equipment

Acquisitions of property, plant and equipment in excess of \$500 are capitalized. Property, plant and equipment are carried at cost or fair value at the date of donation in the case of gifts. Furniture and equipment are being depreciated over their estimated useful lives of five to seven years using a double declining balance method, with a half of year's depreciation in the years of acquisition and disposal. Building and improvements are being depreciated over their estimated useful lives of twenty-seven to thirty-two years using a straight-line method. Depreciation expense was \$20,826 for the year ended June 30, 2003.

Deferred Revenue – Staff Development

The balance of \$139,408 at June 30, 2003 represents the transfer of State professional development monies from the participating school districts to the Cooperative for payment of future District staff development expenditures.

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2003

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donor Restrictions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets. The Cooperative receives a substantial amount of its support from the Kentucky Department of Education and local school districts. A significant reduction in the level of this support could have an effect on the Cooperative's programs and activities.

Revenue Recognition

Substantially all of the Cooperative's revenue is derived from professional staff development allocations and Federal Migrant Grants. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Cash and Cash Equivalents

The Cooperative considers all monies in banks and highly liquid investments with a maturity of three months or less to be cash equivalents.

Donated Materials and Services

Donated material and equipment are reflected as contributions in the accompanying statements at their estimated value at date of receipt. No amounts have been reflected in the statements for donated services inasmuch no objective basis is available to measure the value of such services.

Income Taxes

The Cooperative is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Allocation of Functional Expenses

It is the Cooperative's policy to allocate functional expenses according to various fixed percentages. The percentages are determined by management and are based on management's estimate of functional usage.

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2003

NOTE B - CASH AND CASH EQUIVALENTS

The Cooperative maintained their cash and cash equivalents at three financial institutions. At June 30, 2003, the carrying amount of the Cooperative's cash was \$280,783 (excluding \$1,457 of cash on hand) and the bank balance was \$315,658. The difference between book balance and bank's balance results from deposits in transit and outstanding checks. All three accounts are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC), however, on June 30, 2003, the Cooperative had \$112,696 of funds uninsured and unsecured.

NOTE C - RESTRICTED CASH

Restricted cash at June 30, 2003 consists of the following:

Title I Migrant	\$ 2,014
Professional Staff Development:	
Caldwell County	19,715
Dawson Springs	5,395
Henderson County	41,562
Hopkins County	48,644
Providence	2,198
Webster County	14,598
Trigg County	7,296
	<u>\$ 141,422</u>

NOTE D - LONG-TERM DEBT

Long-term debt at June 30, 2003, consists of the following:

Real estate mortgage with financial institution, 7.1% fixed rate, monthly payments of \$950 including both principal and interest through September 2006, with a balloon payment in October 2006, secured by real estate. Additional unscheduled principal payments of \$472 are being made monthly.

\$ 87,649

Less, current portion of long-term debt

4,910

Long-Term Debt

\$ 82,739

BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2003

NOTE D - LONG-TERM DEBT (Continued)

The future minimum long-term debt payments for years subsequent to June 30, 2003 are as follows:

<u>Fiscal Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2004	\$ 4,910
2005	5,270
2006	5,657
2007	71,812
2008	-0-
	\$ <u><u>87,649</u></u>

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Title I Migrant Program:	<u>\$2,014</u>
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NOTE F - RELATED PARTIES

The Cooperative's Secretary and Migrant Clerk are employees of the Hopkins County Board of Education. The Cooperative has, on a contract basis, reimbursed the Hopkins County Board of Education \$20,761 for the salaries and fringe benefits of these employees for the year ended June 30, 2003.

NOTE G - FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents, restricted capital fund, deferred revenue and note payable.

NOTE H - CONCENTRATION OF CREDIT RISK AND ECONOMIC DEPENDENCE

The Cooperative maintained their cash and cash equivalents at three financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. During the year, the Cooperative's cash balance is in excess of federally insured limits (See Note B).

The Cooperative receives a substantial amount of its support from the Kentucky Department of Education and local school districts. A significant reduction in the level of this support could have an effect on the Cooperative's programs and activities.

COMMENT AND RECOMMENDATION

**BADGETT REGIONAL COOPERATIVE FOR EDUCATIONAL ENHANCEMENT, INC.
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2003

STATE LAWS AND REGULATIONS:

The Cooperative Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Badgett Regional Cooperative For Educational Enhancement, Inc. ("BRCEE") maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between BRCEE and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of June 2, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$108,999 of public funds uninsured and unsecured. As of June 30, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$112,696 of public funds uninsured and unsecured. In addition, BRCEE did not have a written agreement with its depository institution securing BRCEE's interest in the collateral.

We recommend that BRCEE get a written collateral security agreement with its banks and put procedures in place to assure that both banks are pledging assets within the terms of their written agreements.

Cooperative's Response:

I discussed this need with a First United Bank official when we talked about moving funds from Fifth Third Bank to First United Bank. However, as the funds were moved a little at a time, there was a time we exceeded the FDIC insurance level. I was not aware that the secured funds were not in place at this time. I realize that ultimately it is my responsibility to make sure the additional funds are secured with pledges by the bank. I do at this time have written evidence of securities pledged which will cover the total of our First United Bank accounts. (Cusip #31339X5Q3-00).

PRIOR YEAR COMMENT

Prior year comment regarding interbank transfers appears to have been corrected.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



To the Board of Directors of
Badgett Regional Cooperative for
Educational Enhancement, Inc.
Madisonville, Kentucky

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the Badgett Regional Cooperative For Educational Enhancement, Inc. (a nonprofit organization) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 17, 2003. As described in Note A, the Badgett Regional Cooperative for Educational Enhancement, Inc. prepares its financial statements on the basis of cash receipts and disbursements except that the statements include a provision for depreciation of buildings and equipment. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Badgett Regional Cooperative For Educational Enhancement, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comment and recommendation.

- The Cooperative Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Badgett Regional Cooperative For Educational Enhancement, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

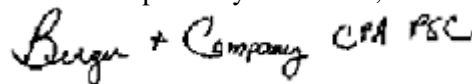
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully Submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company CPA, PSC

Audit fieldwork completed –
December 17, 2003

